

**California Energy Commission
Data Aggregation NOI
Docket 04-IEP-1D**

**Testimony of Roy Kuga, Vice President, Gas and Electric Supply
Pacific Gas and Electric Company
July 13, 2005**

Q: What is the purpose of your testimony?

A: On June 3, 2005, the Acting Executive Director issued a “Notice of Intent to Release Aggregated Data” (NOI) containing several proposals to release to the public data regarding PG&E’s future energy requirements and resources, which PG&E contends is confidential. On June 17, 2005 PG&E filed an objection to two main components of that proposal: (1) the publication of annual capacity information about loads, groups of resources, and net resource need for each individual IOU (proposal 1); and (2) quarterly summarized capacity and energy information for each individual IOU. PG&E objected because this information is market sensitive, and should not be revealed to competitive market participants who could exploit this knowledge in ways that would harm PG&E and its customers.

Q: Why is the annual capacity data in the CEC Staff’s Proposal 1 market sensitive?

A: First, let me note that the CEC Proposal 1 does currently recognize that much of the detailed information we’ve provided, such as contract details and monthly resource output forecasts, is confidential, and PG&E appreciates these protections. However, PG&E believes that the Proposal still damages the interests of PG&E and its customers by allowing the unnecessary release of disaggregated information on utility demand and proposed resource procurement. This information could seriously disadvantage and damage PG&E and its customers during our procurement of electricity over the next several years. Specifically Proposal 1 releases detailed information on PG&E’s bundled customer peak demand and PG&E’s expectations regarding load growth and customer departures. Since PG&E will be procuring capacity for its bundled customers’ peak demand, the release of this specific information, along with the supply data, will allow competitive market participants to know specifically PG&E’s net open position, i.e. what PG&E will require in future procurement. Knowing this information, market participants may be able to extract higher prices from us and potentially exercise market power in our competitive procurement processes, thus driving up costs to our customers and damaging the competitive functioning of California’s energy markets.

Q: Wouldn’t PG&E want the market to know its net open so that the market will develop resources to meet these requirements, in order to preclude the capacity shortfall witnessed several years ago?

A: Absolutely not. PG&E concurs with the premise that it is important for the market to know the timing and type of resource needed to promote development of resources in a region to meet these resource needs. However, providing the net open position goes too far to the detriment of PG&E and its customers. Information on the type of resources needed and the

timing of need are already provided in the RFO solicitations that are issued when resource needs are put out for competitive bid. We explicitly specify the timeframe in which resources are needed and we specify the specific products being requested in that particular solicitation. This information already tells the marketplace what resources are needed and when. However, this can be provided without providing an individual participant's overall net open position, as is intended by Proposal 1.

Telling the market exactly how much is needed would give suppliers an unfair advantage in pricing the last increment needed, especially when suppliers are not required to disclose their own cost information nor required to bid their own cost. When 1) the specific peak capacity and energy requirements of a single utility are known to sellers, 2) the purchasing utility has a legal obligation to serve its customers and must buy to "keep the lights on," as PG&E does, 3) the purchaser's load is largely inelastic, and 4) each seller knows that the utility must pay whatever price the seller bids for the last increment of peak demand, sellers will bid up prices for that last increment exercising market power to raise costs to customers on whose behalf PG&E is purchasing power. Thus, PG&E remains baffled as to why this Commission believes that releasing market sensitive information is in the consumers' or public interest. In fact, we have heard consumer groups argue just the opposite—that market sensitive information should remain confidential and not be put in the hands of the market participants who are competing with or supplying the utilities. Furthermore, a utility's procurement costs are "pass through", i.e., its costs are not marked up and the utility does not earn any profit from its purchasing activities. On the other hand, each seller in the market is in the business to make a profit and tries to maximize profits on its sales. This asymmetric framework suggests that market sensitive information should not be released.

As we all know, a number of energy suppliers and marketers used a version of this type of market power in California's electricity market during the 2000- 2001 energy crisis, imposing billions of dollars of excess costs on PG&E and its customers and other utility customers.

PG&E finds it very troubling that this Commission believes that disclosing a utility's net open position is the key information needed to have greater resource development in California. There is no evidence that this would be the case. In fact, developers and capital markets have been very clear on what is needed--a wholesale market with stable rules, clear price signals, a creditworthy buyer, a supportive regulatory environment that provides the buyer with assurances of cost recovery for the payments being made to the resource owner, and long-term contracts. We have not heard the lending community say to this Commission nor the CPUC that what suppliers need is the utility's net open to invest a dollar in California. If promoting greater resource development is the goal of this Commission, then the release of the utility's net open is a red herring.

The whole point of regional market assessments is to determine when resource development is needed. A developer should not be committing to build a resource because one entity has a large open position. That developer has no assurance that the entity will not close its position at any point in time. What should be important to a developer is the overall anticipated

shortfall or surplus in a region which encompasses all LSE's and market participants, and not the market position of a single entity.

Q: Why does PG&E consider annual IOU-specific forecasts included in Staff's Proposal 1 to be market sensitive, but does not consider comparable annual planning-area forecasts included in Staff's Proposal 2 to be market sensitive?

A: Proposal 1 provides market participants who are selling to the utilities with data about the buyer's (utility's) open position, strategy and requirements, thus placing the competitive advantage in the hands of the sellers. This differs from Proposal 2, which would release aggregated planning area "market- level" information, which should actually be more useful.

In other functioning markets one entity does not disclose its open position to another market participant for the market to work. Goldman Sachs does not disclose to Morgan Stanley its book position and vice versa yet the commodities market functions year after year. Market participants do not need to know the exact positions of other participants. In fact, if all parties know the exact position and strategies of an individual market participant in isolation with no other entity required to disclose its position that will undermine that participant's ability to get a fair and competitive price or fairly negotiate at arms length in the market.

Q: If PG&E considers utility-specific data to be confidential, why does it consider Proposal 3, which would release a range of annual utility specific requirements, not to be confidential?

A: Proposal 3 represents a potential range of needs rather than a specific forecast. This masks PG&E's resource requirements so that a market participant would not be able to ascertain PG&E's actual net open position or market strategy.

Q: Why does PG&E consider the quarterly capacity data to be confidential in all of the CEC Staff proposals if it only objects to the annual capacity data in Proposal 1?

A: PG&E strongly believes that quarterly capacity data, at any level of aggregation, is simply such a detailed level of information that it cannot effectively mask an IOU's net open position. PG&E opposes the release of quarterly capacity data for all scenarios since this information will readily allow market participants to understand not only PG&E's peak requirements, but also allow market participants to ascertain PG&E's market strategy as the seasonal requirements will indicate to the market what type of resources are likely to be sought. By making public quarterly capacity data there is a greater chance that PG&E's resource procurement strategy will become transparent, to the disadvantage of its customers. The same case can be made for Staff's proposals 2 and 3.

Q: Why does PG&E consider the quarterly energy data to be confidential in all of the CEC Staff proposals if it is acceptable to release in on an annual basis?

A: As with the capacity information, the release of quarterly energy information simply provides other market participants with PG&E's net position. It is no secret that PG&E has a lot of

hydro and wind generation, and at certain times of the year PG&E is an energy seller in the market and other times an energy buyer. What is not publicly known, and what PG&E considers to be very market sensitive, is exactly what that seasonal position is and how we forecast this. The reason we want to keep this confidential is so market sellers do not use their market power to extract higher rents in periods when PG&E is an energy buyer, then change their market participation (i.e. strategize to buy from the market) when PG&E is long. Since PG&E's energy position is a mirror of the planning-area seasonal position, PG&E's position can simply be pro-rated as a portion of the planning-area energy generation.

Q: Isn't utility quarterly demand and generation data already publicly available as a result of the CPUC ALJ's Ruling in R.04-04-003, May 9 2005?

A: No. The ALJ ruling in that proceeding required the utilities to provide quarterly energy forecast information on several areas of generation. It did not require the general release of capacity information, and specifically required that certain generating data be provided to parties in the proceeding only under execution of appropriate Non-disclosure Agreements.

Q: Is this just about the price the utility pays?

A: No, rate increases can cause customers that do have alternatives to our utility service, such as industrial customers who can move away or customers who can be served by other utilities, such as municipalities and irrigation districts, to leave our service. Incrementally, this reduces the revenue we can earn from energy delivery to those customers. In addition, if release of this information allows a market participant to exercise market power in a particular market or during a particular period of time, that is anti-competitive and harms all participants in the market.

Q: Isn't there a value to the public at large for the CEC to provide information about the resource needs of each IOU?

A: No, in fact there is a large risk of higher costs to customers that cannot be ignored or mitigated once the information is released. While we recognize that there is broad value in understanding the general physical resource needs of the region, the state, and even sub-regions of the state, and the CEC is an appropriate agency to do this, this can be done on an aggregated basis and would not expose our customers to the potential exercise of market power. However, there is no public policy reason for the CEC to reveal this information at the level that reveals each individual IOU's business needs in a way that disadvantages the IOUs or harms their customers by increasing procurement costs.

Q: The CPUC has denoted the CEC's IEPR as the appropriate venue for determining the level and nature of the residual net short for each utility. How can the CEC do this without revealing what you believe to be market-sensitive information?

A: The CPUC has processes that protect this information through aggregation and masking, and we believe that the CEC can do the same, even though the two agencies may have different

underlying confidentiality regulations. In addition, data can be provided subject to non-disclosure arrangements that protect the information from abuse in the marketplace

First, the CEC could use the method that was used in the last Long-Term Plan cycle. A limited number of CEC staff were allowed access to confidential information after signing NDAs. They then worked with the utilities to aggregate, align and standardize data and assumptions. This worked well and there really is no reason we could not use this structure.

However, even if one interprets the Peevey ACRs as committing the CEC to play a more central role, the CEC's process can be structured to provide the CPUC and non-market participants with the entire data under non-disclosure arrangements, and excluding of the more sensitive data from use by market participants. We believe the CEC could deem this IOU-specific resource needs to be confidential, and create a confidential report for transmittal to the CPUC. This process would allow for a deeper level of review by non-market participants through the use of Non-Disclosure Agreements, just as the CPUC has done for over two years in its Long Term Procurement and Procurement Review Group proceeds.

Q: You note that the CPUC and CEC have different statutory provisions governing their development and application of confidentiality rules. How can this be reconciled?

A: PG&E believes there should be a single set of confidentiality rules applying to utility data, as confidential designation by one entity is moot if it is publicly available through another agency. Further, a single policy regarding confidentiality should consider the best interests of consumers, who will ultimately be harmed in the event that data release causes market price increases and exercise of supplier's market power. To that end PG&E encourages the CEC to actively participate in the CPUC's proposed Rulemaking on Confidentiality and agree to be bound by the decisions in that proceeding.

PACIFIC GAS AND ELECTRIC COMPANY
STATEMENT OF QUALIFICATIONS OF ROY M. KUGA

Q 1 Please state your name and business address.

A 1 My name is Roy M. Kuga, and my business address is Pacific Gas and Electric Company, 245 Market Street, San Francisco, California.

Q 2 Briefly describe your responsibilities at Pacific Gas and Electric Company.

A 2 I am the Vice President of the Gas and Electric Supply Department. I currently oversee the daily gas and electric procurement functions, wholesale and retail market redesign, and the supply, demand and integrated resource planning functions. I joined Pacific Gas and Electric Company over 20 years ago and have held a number of engineering, contracting and planning related positions with my most recent position, Lead Director in the Gas and Electric Supply Department.

Q 3 Please summarize your educational and professional background.

A 3 In addition to my 20 plus years with Pacific Gas and Electric Company, served as an operations research analyst at both GTE and Chevron. I am a registered Professional Engineer in the state of California. I have a Master of Science degree in Operations Research from Stanford University, a Bachelor of Science degree in Electrical Engineering from the University of Hawaii and a Bachelor of Arts degree in Mathematics from the University of Hawaii.

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish
Policies and Cost Recovery Mechanisms for
Generation Procurement and Renewable
Resource Development.

Rulemaking 01-10-024
(Filed October 25, 2001)

**DECLARATION OF
JAMES D. SHANDALOV**

I, James D. Shandalov, declare:

1. I am currently an independent consultant specializing in commercial and regulatory issues in the Western energy markets. At the request of Pacific Gas and Electric Company (PG&E), I am making this declaration to explain how suppliers of electricity to the California energy market gather market intelligence as part of their efforts to sell their products at the optimal prices for their firms. In particular, I will discuss certain categories of information that are currently kept confidential in accordance with an April 4, 2003 Assigned Commissioner's Ruling (Ruling) in the above-captioned docket as well as the proposal to make public all product, price and availability information in a utility's procurement-related applications. I will also comment on the confidentiality of information contained in the utilities' quarterly transaction reports. I will explain how suppliers could make use of such market sensitive information to obtain prices higher than they may have been able to obtain if the suppliers did not have access to this market sensitive information. The suppliers' possession of this market sensitive information could result in ratepayer harm in the form of higher procurement costs. In this market, as in any other rational market, sellers seek to obtain the highest possible prices for their products, and buyers seek the lowest possible prices.

2. I have 16 years of experience in the energy industry, including 10 years in the regulated utility business and 6 years in the merchant energy sector. My merchant experience includes trading, origination, and development. Prior to my current employment, I held the position of Director for Mirant Americas Energy Marketing LP until November 2003. In that

position, my responsibilities included originating long-term supply contracts to California wholesale customers, including public utilities, municipalities, and load aggregators. I have also held positions at Southern Company and Georgia Power Company. A copy of my resume is attached to this declaration. My background and experience give me knowledge of how suppliers could make use of market sensitive information and other market intelligence to obtain the highest possible prices for their products. I am by no means suggesting that the behavior of marketers and suppliers I describe in this declaration is unethical. The attempt to collect as much information about the market as possible, in a perfectly legal manner, is simply rational behavior on the part of participants in a competitive market.

3. Suppliers develop their view of the market from a variety of information sources. The more information they can obtain, the more refined their market view. This market view determines asset hedging activities, asset development and retirement strategies, and speculative trading strategies. While suppliers take some information at face value and use it to make short-term trading decisions, suppliers also gather other information and further model it to gain a longer-term perspective on the market. The information suppliers seek includes forward curves, loads, the magnitude of competitors' and customers' open positions, the status of capacity additions and retirements, status of major transmission projects, major policy issues that drive resource decisions, short and long-term weather forecasts and trends, the outlook for hydro production relative to snowpack and fish programs, generator outages, transmission maintenance, transaction data, and the like. The sources for such information include documents on file with this Commission, Western Electricity Coordinating Council (WECC) studies and assessments, California Energy Commission (CEC) studies and plant licensing/construction status reports, California Independent System Operator (CA ISO) seasonal assessments and market design proceedings, legislative actions, Federal Energy Regulatory Energy Commission (FERC) filings (Reliability Must-Run (RMR), Electronic Quarterly Reports (EQR)), company annual reports, trade publications and news services, transactions with customers, and the like.

4. Suppliers have access to a great deal of information regarding the markets.

Because the California utilities are so dependent on the markets to cover their net open position, particularly as the net open positions increase over time, those net open positions and the utilities' specific plans for covering is intelligence suppliers would find especially useful because suppliers could better anticipate the timing of buying activity. Suppliers could respond by either buying additional supplies or selling existing supplies less aggressively in anticipation of utility purchases.

5. Based on publicly available information, I understand that PG&E derives its electricity net open position by measuring the difference between its retail load obligation and the ability of its existing resource portfolio to meet that load obligation while also meeting state and regional capacity reserve requirements. For natural gas, the net open position consists of three components: (1) the fuel required to operate utility-retained generation, (2) hedging activities associated with managing Short Run Avoided Cost (SRAC) electricity price risk in Qualifying Facility (QF) contracts, and (3) hedging activities associated with managing electricity price risk in the Department of Water Resources (DWR) dispatchable contracts.

6. Based on publicly available information, I understand that when coupled with Commission policy directives on energy efficiency, Demand Side Management (DSM) programs, compliance with the California Renewable Portfolio Standard (RPS), new Distributed Generation (DG), and purchases from Qualifying Facilities, in addition to managing a substantial position in DWR-allocated contracts, PG&E's remaining energy and capacity needs for the next five years must be acquired through market contracts.

7. In the paragraphs that follow, I will discuss why I, as a marketer or supplier to utilities, would consider the information the Ruling protects as market sensitive information and how I or other market participants could use that information to obtain the optimal price for products from the utilities.

8. As a marketer, I would regard the utilities' own, internally developed assumptions of natural gas prices and on- and off-peak electricity prices as market sensitive

information because such data provides positive evidence about what the utilities actually think future prices will be. If I have definite knowledge as to what a utility thinks the prices in the future may be, then barring a major market move, I would have little incentive to offer the utilities a price below the prices the utility is predicting. On the other hand, if I did not have access to this market sensitive information, my market intelligence would be much less perfect, which might induce me to offer a lower price in order to secure the contract with the utility. By the same token, if I know that utilities are forecasting prices lower than what I am prepared to offer, I have an incentive to look elsewhere for a more favorable market for my products. Additionally, I may make sales in the more volatile shorter-term markets rather than longer-term forward markets. To the extent the utilities' lower forecast prices lead to a drop in forward market prices, this could inadvertently lead to the accelerated retirement of older generating capacity, which could result in ratepayer harm during a time of capacity shortage.

9. From a marketer's perspective, how a utility values avoided energy costs on an hourly basis is market sensitive information. I could use this knowledge in a period of high demand to price my products just below the utility's forecast cost. On the other hand, if the only intelligence I have in this area comes from aggregated data, it is more difficult to match my pricing with what the utility might be predicting because I do not know, specifically, the avoided cost in a given hour.

10. In California, the utilities are the largest buyers of capacity and energy in their respective service areas; the magnitude of resource needs can influence how a marketer will price its products. For example, I believe that PG&E, whose net open position begins to increase in 2006, will become even more sensitive to the market, as its market purchases become an ever-growing proportion of its resource portfolio. An increase in net open position from year to year will necessarily increase the amount of trading and contracting activity in the market. Suppliers are focused on profit maximization, so the more that they know about the exact net open position of a utility and its plans to cover that position, the greater the potential that the market will inadvertently bid up prices, either through additional buying or less aggressive selling, in

anticipation of buying activity by the utilities. If I, as a marketer, know either the exact amount of PG&E's net open position or PG&E's detailed plan and timing to cover that position, I could attempt to use this market sensitive information to obtain higher prices as the net open position increases and older capacity retires.

11. As a marketer, I would consider a utility's fuel hedging plan for managing electricity price risk in QF and DWR dispatchable contracts as market sensitive information. The quantity and timing of the hedges have the potential to affect market prices. To the extent suppliers know such details, there is the potential of harm to ratepayers resulting from an inadvertent bidding up of market prices for natural gas, either through additional buying or less aggressive selling, in anticipation of large transaction activity by the utility. Additionally, with respect to DWR contract hedging, not only would a disclosure of the short position signal how much gas the utility would need to hedge, but it would also indicate the capacity factor at which the utility is planning to dispatch the DWR contracts at the contract heat rate. This disclosure would further indicate the utility's view of the gas and power markets, including how much more or less energy the utility would need to buy in the market, and potentially influence bidding behavior of market participants.

12. As a marketer, I would not benefit much from the possession of a utility's annualized energy mix by percentage. On the other hand, I would consider such data for monthly periods somewhat more useful, market sensitive information because it would make it less difficult to determine a utility's marginal costs at different times of the year. For example, monthly forecast information would show seasonal trends in a utility's own energy production as well as the proportion of energy to be purchased from the market. For the summer in particular, I could better determine the magnitude of the utility's market purchases and compare it with my own view of the market. Given this type of information, the market could inadvertently bid up prices, either through additional buying or less aggressive selling, in anticipation of significant utility purchases from the market, compared to prior periods.

13. Peak day resource needs is an important piece of market intelligence. Ideally I would want access to all such market sensitive information, but even if access to such information were subject to confidentiality for the first three years' data as PG&E has proposed, I could still use the peak day forecast data for the fourth year along with actual peak load data for prior years, as filed in a utility's FERC Form 1, to interpolate the peak day needs for the years in between, including the current year.

14. Concerning a utility's energy mix disaggregated by periods shorter than a year, if I had access to that information, which PG&E proposes to keep confidential, I could use that market sensitive information to calculate from month to month or year to year actual adjustments to a utility's resource portfolio; I'd then be able to determine more accurately the utility's incremental needs from the market. With this type of information the market might inadvertently bid up prices, either through additional buying or less aggressive selling, in anticipation of significant market purchases by the utility, as compared with prior periods.

15. As a marketer, I would consider disaggregated data for a utility's DWR dispatchable power contracts and "new world" Power Purchase Agreements (PPAs) market sensitive information. If I know exactly how much energy a utility expects to receive pursuant to the dispatchable contracts, I can pinpoint much more exactly how much the utility will need to buy from the market and adjust my prices accordingly.

16. From a marketer's perspective access to the PPAs a utility has would be extremely valuable market intelligence. Such market sensitive information would provide insight into a utility's risk management approach. This information would give me a better sense of which products a utility has procured to cover its net open position. The products could be standard, on-peak 16-hour blocks of energy, or 4- to 8-hour super-peak delivery profiles, or dispatchable energy and capacity, or call options (with fixed or indexed strike prices), and the like. I would attempt to stack these products on top of the utility's other resources to determine from a capacity perspective the extent to which a utility has covered its net open position and how much will be left to cover in the more volatile, shorter term markets. Knowledge of the

terms and conditions of PPAs in effect would also enable me to see which other suppliers already have agreements in place and on what terms, which would enable me to test how much more the utility may be willing to pay for similar products in future solicitations by offering such products at higher prices. I would also gain intelligence on the open positions of other suppliers, specifically with respect to how much less long or how much more short a position another supplier now has as a result of contracting with a utility. If a utility's current PPAs are made public I believe this market sensitive information would weaken a utility's negotiating power with respect to both price and contract terms for future transactions. I would use this information as evidence that a utility has been willing to agree to certain price and contract terms. Possession of such information would make me more reluctant to agree on terms and conditions more favorable to the utility in my negotiations with that utility. Furthermore, if the utility is in the market to procure more of a similar product or products, there will be less supply than in the previous solicitation and this may give me an opportunity to obtain higher prices and less flexible contract terms because I know the utility is still short and must cover its open position.

17. Information concerning a utility's energy sales forecasts to the wholesale market disaggregated by month or delivery period is valuable, market sensitive information because such information has the potential to identify more clearly when utilities' net open position is greatest, allowing suppliers to inadvertently bid up prices, either through additional buying or less aggressive selling, in anticipation of significant utility purchases from the market, compared to prior periods. However, such information, if aggregated on an annual basis, is much less useful.

18. As a marketer, I would regard a utility's past fuel buying and hedging information to be market sensitive because possession of such information would enable me to determine better how a utility has hedged its natural gas price risk for the QF contracts and dispatchable DWR contracts. Based on public information the ISO publishes within 45 days after the end of a calendar year regarding annual energy production at the utilities' RMR facilities, I could "reverse engineer" the amount of gas utilities bought for hedging the QF and DWR contracts on an annual basis if the confidentiality provision for fuel buying and hedging was shorter than two years. The

older and more “stale” this information is, the less valuable it becomes to a marketer because enough factors will have changed over time to make the information less useful on a going-forward basis.

19. PG&E has also asked me to comment on the Commission’s proposal to make public all product, price and availability information in a utility’s procurement-related applications. As a marketer I would object to making the information public because it exposes to some extent my own open position particularly if the proposed transaction is not executed. Particularly for capacity-based products, such as dispatchable physical generation or tolling agreements, my competitors would see that I was prepared to transact a certain quantity of product at a certain price. If that transaction was not executed, my competitors would then know that I have a remaining long position and that I will be a seller in the shorter-term markets. Such a scenario could actually lead to lower prices in the shorter-term markets because of the greater selling pressure, which is a situation I as a marketer would wish to avoid. Thus this information is market sensitive from a supplier’s perspective. From the utility’s perspective, if the utility still has short position after making public the terms of proposed or recently executed PPAs, then in future solicitations I would regard this as an opportunity to obtain higher prices. Presumably, the utility in its initial solicitation would have attempted to buy most, if not all, of the lowest-cost products that fit its portfolio needs. To the extent the utility needs to conduct a further solicitation for additional, similar supplies, however, I would have little incentive to offer pricing lower than what the utility has already paid. Aside from product, price, and availability terms, if I know who my competition is, this market intelligence can affect how I formulate my offer in response to a solicitation. For example, if I know that my competitor, who has a certain amount of generating capacity, has already consummated capacity transactions with a particular utility, then I know that in future solicitations, there will likely be less capacity available from that competitor. I would see this an opportunity to attempt to obtain a higher price depending on whether I thought I might get a contract at the higher price, based on other market intelligence I may have.

20. With respect to applications for utility projects, potential suppliers certainly want to know the prices a utility is prepared to pay for new capacity. This too is market sensitive information. To the extent there is a competitive solicitation for new capacity, it may be unrealistic to think that the full contract would not eventually have to be disclosed publicly (such as upon execution), but, as with a PPA, as a supplier I would not want the terms disclosed, except to a select group of non-market participants, during the proposal and evaluation phase at the Commission.

21. Finally, with respect to information the utilities now provide in their quarterly transaction reports, I would find all such information very valuable market intelligence of a market sensitive nature. If the exact details (product, price, quantities) of the bilateral transactions, as well as ISO purchase and sale transactions, were made available to me upon filing of the quarterly transaction reports, I could use that information to determine more exactly the utilities' net open positions on a monthly basis. With this knowledge of actual quantities and prices utilities are paying for natural gas and electricity, I might also be able to determine the dispatch of the utilities' DWR contracts. Knowing how the utilities supply their net open position in a given month or quarter would enable me to predict much more precisely the utilities' needs in similar quarters in future years. To do this, I would first evaluate the magnitude of transactions for the past quarter. Then I would adjust for load growth, adjust for expiration of DWR contracts, adjust for stated energy efficiency and DSM goals, adjust for procurement of renewable energy in compliance with the RPS, and be able to make a forecast of the utilities' net open position for the same quarter of the following year. Given the long lead-time required for new capacity to enter the market, if I anticipated significant buying activity by the utilities, I would have an incentive to attempt to obtain higher prices for existing capacity and energy in the near term. Assuming that the utilities' net open positions increase over time, thereby increasing their reliance on contracts from the market, I would assume utilities would be commensurately less able to secure lower prices for ratepayers because the market would know the extent and trend of the increase of the utilities' net short position.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on MARCH 1ST 2004, at Danville, California.



JAMES D. SHANDALOV

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PROFILE

Offering a 16-year history of proven performance in origination of energy supply contracts, generation development, asset optimization, power trading, asset acquisition, energy policy, project management, and technical design. Strengths include: breadth of experience, commercial sense, contract negotiation, and communication skills.

PROFESSIONAL EXPERIENCE

MIRANT CORPORATION, Walnut Creek, CA

2000-2003

Director, Marketing and Development (2001-2003)

Project Director (2000-2001)

- Originated long term supply contracts to California wholesale customers – public utilities, municipalities, and load aggregators. Successfully closed sales transactions under difficult credit environment leading up to Chapter 11 filing. Participated in negotiations on tolling agreement as seller. Involved in settlement discussions with state, FERC, and customers regarding litigation related to California energy crisis. Active in state regulatory and legislative issues pertaining to energy policy, including utility procurement, direct access, and renewable energy. Familiar with Reliability Must-Run contracts with California ISO.
- Directed marketing and development team for origination of power, gas, and emissions credits deals, as well as new generation development in California. Successfully closed sales transactions in each commodity. Negotiated tolling deal as buyer. Delivered presentations at two energy conferences.
- Developed sites for natural gas fired combined cycle projects in California. Directed multi-disciplinary due diligence teams, prepared bids, and negotiated purchase of potential acquisitions; targets included companies, assets, development projects, and energy supply contracts. Team members included technical, environmental, legal, finance, trading, and structuring.

SOUTHERN COMPANY ENERGY MARKETING, LP, Atlanta, GA

1998-2000

Southern Energy, Inc. and its subsidiaries were spun off as Mirant Corporation in September 2000

Manager, Power Logistics (1999-2000)

Manager, Transmission (1998-1999)

Hourly Trader (1998)

- Managed hourly trading, pre-scheduling, and real time power operations in WECC and supervised support team. Assisted in asset optimization of Mirant's 3000 MW Bay Area portfolio. Traded hourly power in California and WECC markets. Established and hedged positions in Firm Transmission Rights. Developed new relationships and physical positions that led to valuable opportunities.
- Managed East Transmission Desk and support team. Responsible for physical transmission of power on daily basis and for forward hedging with transmission in PJM and Midwest markets. Helped traders to complete deals involving transmission. Provided guidance and training to team.
- Traded hourly power in East Region. Helped establish Southern Energy as an active market participant. Made transmission reservations on OASIS and created energy tags for hourly deals. Handled and resolved real time problems with prescheduled power.

SOUTHERN COMPANY SERVICES, INC., Birmingham, AL and Atlanta, GA

1996-1998

Project Engineer

- Selected to first class of Pipeline Leadership Development Program to do 4 job rotations at Southern Company subsidiaries. Completed courses in Emerging Competitive Energy Markets, Financial Analysis, Electric Utility Cost Structure, and Strategic Negotiations.
- **Southern Company Energy Marketing** - Coordinated load forecasts, power schedules, and financial settlements in SCEN's participation in the Pennsylvania Retail Pilot. Scheduled power in PJM.
- **Southern Company Services' Financial Planning and Analysis** - Assisted with developing criteria for investment in generation and distribution assets. Analyzed Georgia Power's freight logistics program.
- **Southern Development and Investment Group's Energy Services** - Performed financial modeling and risk analysis. Key part of due diligence team for a proposed energy services company acquisition.
- **Southern Company Services' Transmission Planning and Operations** - Implemented FERC Orders 888 and 889. Assisted in designing rates for transmission and ancillary services, and in the related FERC filings. Developed financial models to measure cost shifting between the operating companies.

GEORGIA POWER COMPANY (SOUTHERN COMPANY), Atlanta, GA

1987-1996

Project Engineer (1993-1996)

Design Engineer (1991-1993)

Cooperative Education Program (1987-1991)

- Assisted project manager in managing multiple capital transmission line and substation projects. Functional areas included land acquisition, procurement, engineering, environmental, construction, and commissioning. Developed project strategies and coordinated schedules and budgets. Completed job rotation in Transmission Construction. Served as Chairman of Georgia Power Engineering Association. Completed Leadership Development program.
- Prepared cost estimates and performed engineering design for electric substation projects. Designed physical portion of Georgia Power's first "Southern Company standard" substation.
- Worked alternate quarters while earning undergraduate degree in college. Completed 5 quarters in Substation Design and 2 quarters in the Research Center.

EDUCATION

Master of Business Administration, Georgia State University, Atlanta, Georgia, 1995

Bachelor of Electrical Engineering, Georgia Institute of Technology, Atlanta, Georgia, 1991

PROOF OF SERVICE BY MAIL

I, the undersigned, state that I am a citizen of the United States and employed in the City and County of San Francisco; I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, 77 Beale Street, San Francisco, California 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On March 1, 2004, I caused to be served a true copy of:

COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) ON CONFIDENTIALITY ISSUES

by placing it for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, on March 1, 2004, enclosed in a sealed envelope, with postage fully prepaid, addressed to:

All Parties in Rulemaking 01-10-024

In addition, an electronic version of the above-referenced Comments was transmitted to all parties providing an e-mail address in Rulemaking 01-10-024.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on March 1, 2004.


STEPHANIE LOUIE

**Additional Qualifications of
James D. Shandalov
Pacific Gas and Electric Company**

I am currently employed as a Principal in the Power Contracts department of PG&E. My job responsibilities include execution of competitive solicitations and the negotiation of short, medium, and long term structured power transactions. I have 18 years of experience in the energy industry, including 12 years in the regulated utility business and 6 years in the merchant energy sector.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**TESTIMONY OF PACIFIC GAS AND ELECTRIC COMPANY**” by

- transmitting an e-mail message with the document attached to each party on the official service list for Docket 04-IEP-1 hereby listed below.

Parties at the California Energy Commission:

Chairman Joseph Desmond c/o TParkiso@energy.state.ca.us

Vice Chair Jackalyne Pfannenstiel c/o cgraber@energy.state.ca.us

Commissioner Arthur Rosenfeld c/o sharris@energy.state.ca.us

Commissioner Jim Boyd c/o lbeckstr@energy.state.ca.us

Commissioner John Geesman c/o hkalleme@energy.state.ca.us

Jonathan Blees c/o jblees@energy.state.ca.us

Caryn Holmes c/o cholmes@energy.state.ca.us

For Southern California Edison Company

Beth Fox c/o Beth.Fox@SCE.com

For San Diego Gas and Electric Company

Lisa Urick c/o LUrick@Sempra.com

Executed on July 8, 2005, at San Francisco, California.

/s/

MARTIE L. WAY